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**The Department of Social and Health Services, Medical Assistance Administration does not perform adequate reviews of providers of durable medical equipment to ensure the providers exist, are properly licensed, and have submitted accurate information.**

**Background**

Durable medical equipment is equipment that can withstand repeated use, is primarily used to serve a medical purpose, generally is used by a person with injury or illness, and is appropriate for use in the home. Examples include, among other items, hospital beds, wheelchairs, and oxygen delivery systems. Currently there are more than 28,000 providers of durable medical equipment.

Providers of this equipment must be approved by the Department of Social and Health Services, Medical Assistance Administration. These providers submit documentation to the Administration to verify they are able to supply certain products. Required documents include business licenses and completed agreements between the Administration and providers. The Administration is responsible for reviewing the information prior to establishing a provider number for an individual or organization. This number, when accompanied by a claim, causes the Administration's system to generate an approval and payment to the provider.

**Description of Condition**

We attempted to determine whether the reviews performed by the Administration were adequate to ensure the existence of an entity prior to the establishment of a provider number. We found the Administration does not:

- Verify the provider's business phone number and address.
- Verify the validity and status of the business license.
- Provide criteria for the circumstances that constitute a valid business license for an out-of-state provider.
- Program its Medicaid Management Information System to notify staff members when business licenses expire. Currently, this function is operative for professional licenses only.

Due to the weaknesses we found, we expanded our scope and conducted a review of providers in Washington and in the border states of Oregon and Idaho to determine if there was reasonable assurance the businesses existed and were operating. We reviewed the Administration's records for 80 providers and conducted site visits for 25 of those providers. As a result of the site visits, we found:

- Five businesses had ceased operations, but the Administration had not terminated their provider numbers.
- Two businesses could not be located. One was an in-state provider and the other an out-of-state provider.
- Two businesses appeared to be private residences. It is difficult to determine if business is actually conducted on these premises.
- Three businesses had changed ownership without reporting the changes to the Administration as required by the Core Provider Agreement.
- Three businesses were listed as inactive on the Department of Licensing or Department of Revenue's Websites. These businesses did have active city licenses.
- Six businesses had changed address and/or phone numbers but had not reported the changes to the Administration.
- Two providers had expired licenses

We asked for additional information for 13 of the 80 providers we reviewed. We found that the Administration had out-dated licensing information for 12 of the 13.

### **Cause of Description**

The Administration stated a lack of resources prevents it from performing a thorough review of provider enrollment information. Currently, the Administration has only three staff members performing the enrollment functions for over 28,000 providers. Additionally, the Administration has not clearly set forth for staff the procedures required to ensure whether a business is licensed and operating.

### **Effect of Condition**

While we found no payments made to these particular providers, these weaknesses could allow providers to submit fraudulent requests for payment that would not be detected in a timely manner, if at all. Because of the costs involved with durable medical equipment, such payments could result in significant losses in a relatively short period of time.

## **Recommendations**

We recommend the Administration:

- Establish clearly defined policies and procedures to ensure adequate verification of provider information.
- Provide the resources necessary to perform adequate review of provider information prior to establishing a provider number.
- Program the Medicaid Management Information System to identify expired business licenses.
- Monitor providers for compliance with Core Provider Agreements.

## **Department Response**

The Department partially concurs with this finding.

- We do not believe the weaknesses cited in the sample of 25 providers out of approximately 1,600 durable medical providers would result in significant losses because of compensating internal controls that are currently in place. For instance, if correspondences and/or payments are sent to an incorrect address, they are automatically returned to the Medical Assistance Administration (MAA) by the U.S. Postal Service. Staff would then research and update for any address changes or corrections. If MAA is unable to obtain an updated address, then the provider agreement is terminated. When ownership changes, the new owner must contact the Department to ensure that future payments are made to the new owner. At that time, the new owner must sign a new Core Provider Agreement in order to be paid, and MAA staff terminates the previous owner's agreement. Finally, it is important to note that the MAA has staff in the Post Payment Review and Audit sections whose sole responsibility is to perform post-payment reviews and ensure that any inappropriate payments are recouped in a timely manner. Furthermore, it is our opinion that the clerical errors cited by the SAO are errors that staffs would have taken care of during the normal course of business.
- WAC 388-543-1200, contains no requirement that durable medical equipment (DME) providers have storefronts. Legitimate businesses may operate out of a residence.
- The SAO cited WAC 388-502-0010, "(1) To be eligible for enrollment, a provider must: (a) Be licensed...according to Washington state laws and rules..." However, WAC 388-543-1200 (1) (a) requires DME providers to have "the proper business license." The Department accepts both city and state business licenses as proper business licenses.

- As a good business practice, the Department will explore confirmation of licensing by partnering with the Department of Revenue. DSHS and the Department of Health also will investigate the verification of providers' business locations and phone numbers through a reverse directory search. Also, we acknowledge that our current Medicaid Management Information System (MMIS) does not identify expired business licenses. This is another among the many reasons why a reprocurd MMIS will benefit the state. The new MMIS will allow us the ability to include the verification of both business and professional licenses.

## **Auditors Concluding Remarks**

### **Applicable Laws & Criteria**

The U.S. Office of Management and Budget Circular A-133 *Compliance Supplement* states:

In order to receive Medicaid payments, providers of medical services furnishing services must be licensed in accordance with Federal, State, and local laws and regulations to participate in the Medicaid program...and the providers must make certain disclosures to the State....

Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, Subpart C, Section .300 states:

The auditee shall:...

(b) Maintain internal control over Federal programs that provides reasonable assurance that the auditee is managing Federal awards in compliance with laws, regulation, and the provision of contracts or grant agreements that could have a material effect on each of its Federal programs...

Section 20.20.20.a of the State Administrative and Accounting Manual states, in part:

Each agency director is responsible for establishing and maintaining an effective system of internal control throughout the agency.

The Core Provider Agreement, paragraph 4 c., states in part:

... the Provider agrees to notify the Department of any material and/or substantial changes in information contained on the enrollment application given to the Department by the Provider. This notification must be in writing within thirty (30) days of the event triggering the reporting obligation. Material and/ or substantial changes include, but are not limited to changes in:

- a. Ownership
- b. Licensure
- e. Any change in address or telephone number

WAC 388-502-0010 states in part:

The Department reimburses enrolled providers for covered medical services, equipment and supplies they provide to eligible clients.

(1) To be eligible for enrollment, a provider must:

- (a) Be licensed, certified, accredited, or registered according to Washington state laws and rules;...